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SIPDIS

DEPARTMENT FOR SA, SA/INS, PM, NEA
NSC FOR E. MILLARD

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SUBJECT: Proposed weapons deal involving Israeli company stirs controversy

Refs: (A) SA/INS-Colombo 09/02/03 class e-mail
- (B) Colombo 1522, and previous

(U) Classified by James F. Entwistle, Deputy Chief of Mission. Reasons 1.5 (b, d).

¶1. (C) SUMMARY: A proposed weapons deal has sparked public accusations that Sri Lanka's Defense Ministry favors an Israeli bid because it has worked out kickbacks with the company. The Defense Ministry denies the charge. At this point, the proposed deal is extremely tangled, as a potential U.S. FMS offer to purchase the systems for the government undergoes further review by the GSL. The case highlights the continued mess in the GSL military procurement system and the government's evolving relationship with Israel. END SUMMARY.

¶2. (C) DISPUTE OVER PROPOSED WEAPONS DEAL: A proposed weapons deal has stirred controversy in Sri Lanka. The dispute revolves around an Israeli company's offer to meet the requirements of a Sri Lankan Navy (SLN) tender for cannons to fit onto the SLN's fast attack craft. As Mission understands the situation, the Israeli company in question, Rafael, is acting as agent for ATK Ordnance and Ground Systems, a U.S. company based in Arizona that manufactures the Bushmaster 30mm cannon. In the Cabinet and in the press, the Defense Ministry has been pilloried for publicly supporting the Israeli bid to the exclusion of a possible U.S. FMS procurement, which potentially would cost less. (Note: The Rafael offer is said to be worth about USD 12 million. Various figures have been bandied about in the press regarding a possible U.S. FMS procurement, but the USG has not, in fact, submitted a "price and availability" letter as of yet.) Taking a lead in the criticism, Rajitha Senaratne, Minister of Lands, has publicly accused the SLN of supporting the Rafael offer, although it is "inferior." Senaratne, who has taken a lead role in the government as a sort of "Mr. Clean," has also directly insinuated that Defense Ministry personnel and others in the government stood to personally benefit from kickbacks from Rafael. Feeding off Senaratne's comments, there have also been several recent press pieces accusing the Defense Ministry of corruption in the proposed sale. Commenting on the accusations, D.K. Dassanayake, a retired rear admiral, who sits on the Cabinet board now reviewing the deal (see below), told poloff that, in his estimation, Defense Ministry and other GSL officials recommending the Israeli offer are most likely doing so for personal benefit. Dassanayake was not sure whether this included Defense Minister Marapana himself.

¶3. (C) For its part, the Defense Ministry has vociferously denied the charges. In a recent public statement, Defense Minister Tilak Marapana stated that the public is being misled and there has been no impropriety on the part of his ministry or the SLN. Marapana said the tender had been completely transparent and there was no thought of corruption. He noted that the GSL was continuing to review its options regarding the sale.

¶4. (C) DEAL REMAINS TANGLED: As the political controversy swirls, the deal itself remains extremely tangled. Rafael is still believed to be in the ballgame to sell the system. However, the political accusations that are flying about may make it gun shy to go forward, according to observers.

¶5. (C) At the same time, the potential U.S. FMS offer to supply the ATK-manufactured Bushmaster cannons needs further review by the GSL. The Sri Lankan Navy has told the U.S. that the weapons system potentially being offered is too heavy for SLN boats. During an August 29 meeting with Milinda Moragoda, the Minister of Economic Reform, DATT corrected the GSL's misimpression that the "too heavy" determination was a joint SLN-USN one, when it was in fact only a SLN determination. DATT informed Moragoda that the U.S. Navy does not have enough technical information regarding the SLN's fast attack

craft to evaluate the technical feasibility of the U.S. system. In reply, Moragoda has asked the U.S. to determine the feasibility of the weapons system. DATT replied that the USG would review this request, noting that the GSL would be financially responsible for undertaking the study.

16. (C) There are also other elements in the mix: The U.S. manufacturer, ATK, has also recently submitted an unsolicited offer to sell a MK 44 (Bushmaster 30mm cannon on a "typhoon" mount) weapon system directly to the GSL through their agent in Israel. The structure of their proposal is aimed at keeping them from being in direct competition with a potential USG FMS deal. There are also reports that the GSL is looking into other 30mm weapons systems from Israeli sources for its fast attack craft.

17. (C) NEXT STEPS: At an August 25 Cabinet meeting, Prime Minister Wickremesinghe deferred the MOD decision in favor of the Rafael offer and ordered a total reevaluation of the proposal. The PM also tasked a board to report to the Cabinet on the proposal. Per DATT's meeting reviewed above, we also understand that Minister Moragoda has been asked by the Prime Minister to look into the matter and try to untangle it.

18. (C) COMMENT: The case highlights the continued mess that the GSL military procurement system is in. The system has long been rife with corruption and other inefficiencies. To his credit, the PM has made it a priority to try to clear up the situation, but it is not clear whether he has the political muscle to do so. In the meantime, the ramifications of the procurement mess for the Sri Lankan military are serious, and are hurting the GSL's effort to maintain the balance of power with the Tamil Tigers during the peace process.

19. (C) COMMENT (Continued): Re Israel, while the two countries share long-standing diplomatic ties, the GSL-GoI relationship has run hot and cold through the years. There seems to have been some warming of relations of late, however. In a rare event for a high-level Sri Lankan official, Defense Minister Marapana visited Israel earlier this year, for example. Marapana's apparent connection to the controversial Rafael offer, however, may complicate relations, and, as has happened in the past, Sri Lanka's large Muslim population might work to put a brake on closer ties. END COMMENT.

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